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It's Getting Better. Really! Nobody knows who first said "There are lies, damned lies, and statistics!" Mark Twain attributed it to Benjamin Disraeli. Maybe it was Yogi Berra. Anyway, despite some ambiguities and unusual behavior, labor market statistics have improved noticeably over the past year. Recovery is far from complete, but Main Street is participating. It couldn't happen at a better time, providing some offset to the drag from rising oil prices.

The 'Official' Count. The unemployment rate comes from the huge monthly Household Survey of 60,000 households. Those voter polls usually have only 500 to 1,000 respondents with large margins of error. The unemployment rate only has to change by 0.2 percentage points to be "statistically significant."

If survey respondents worked, they are counted as employed. Jobs have climbed 2.5 million over the past year. If they didn't work, they are classified as unemployed as long as they actively looked for work in the prior 4 weeks.

Looking can range from asking friends about openings to sending out resumes and completing applications. Simply scanning the help-wanted ads on your way to the sports page does not qualify. If you still want a job, but stopped looking, you're no longer counted as officially unemployed no matter how long you've been without work.

The unemployment rate is the number of unemployed divided by the labor force (employed plus unemployed). The labor force participation rate is the labor force divided by population – more about this later.

Unemployment was about 4.5 percent before The Great Recession started in late 2007. It peaked at 10 percent in October 2009 – a few months following the recession's end (according to the independent National Bureau of Economic Research). After hovering around 9 percent for much of last year, it dropped to 8.3 percent this year.

Given the sluggish pace of Gross Domestic Product (GDP) growth, the recent decline is a major surprise. It partially reflects a small further drop in the *labor force participation rate*. The labor force grew, but not as fast as the population. If it had expanded as fast because more people looked, and if all those extra people were unable to find work, the unemployment rate would have been 8.7 percent rather than 8.3.

Does this mean the economy is not performing as well as the official unemployment rate indicates? Participation has been declining since the late 1990s and is likely to continue to fall for years to come. One reason is the aging of the Baby Boomer generation. Another is that young people seem to be more attached to school than work. Hence, declining participation is not entirely the result of negative forces such as people dropping out because they can't find work.

Plus, there are many other indications that the labor market has made significant strides. Jobless claims have dropped while job openings have risen. The "payroll" or "establishment survey" has been registering large gains.

The Establishment Survey. If you were tuned to CNBC on Friday, March 9th at 8:30a.m. there was much excitement about the news that "nonfarm payroll jobs" increased 237,000 in February over January. The data come from a huge survey of business and government hiring establishments that covers more than 40 million workers. Although both are released at the same time, this survey is entirely independent of the Household Survey. Payroll jobs have risen more than 2 million over the past 12 months. And so far, we have re-gained 40 percent of the 8.8 million jobs lost during the recession.

Unemployment Insurance. This information comes from the state unemployment offices. New applications, called "initial claims," have recently fallen to the low level of 350,000 per week. The recession peak was more than 650,000.

"Insured unemployment" is the total number of people receiving benefits, about 3.4 million – about a quarter of the unemployed shown by the household survey. Some of the rest have exhausted the maximum benefits of 99 weeks – recently reduced to 73 or 63 weeks depending on the state. Others are ineligible because they recently entered or re-entered the workforce. You have to have been laid off from a job in order to collect. Incidentally, there's no question in the Household Survey about whether a person is collecting unemployment benefits. Thus, a person who runs out of benefits will continue to be counted as unemployed for the household survey as long as they continue to look for work.

Musings & Amusings: *Unemployment*

"Hi, I'm George. I'm unemployed and I live with my parents." - Constanza from Seinfeld

"A lot of fellows nowadays have a B.A., M.D., or Ph.D. Unfortunately, they don't have a J.O.B." - Fats Domino

"When more and more people are thrown out of work, unemployment results." - Calvin Coolidge

Do "official" stats undercount? I often hear that the reported unemployment rate is understated because it excludes "discouraged workers" who have given up looking as well as those working part-time because full time jobs are not available. In fact, both categories are included in an alternative monthly measure known as U-6, which is almost double the official rate. U-6 tends to rise and fall move very much like the "official" unemployment rate. And during the past year it has come down slightly faster.

Labor Market Snapshots

	Feb 2011	Feb 2012
Population (Thous.)	238,851	242,435
Labor Force	153,302	154,871
Employed	139,551	142,065
Unemployed	13,751	12,806
Not In Labor Force	85,550	87,564
Unemployment Rate %	9.0	8.3
Participation Rate	64.2	63.9
U-6 Unemployment %	15.9	14.9
Nonfarm Payroll (Thous.)	130,676	132,697
Initial Claims	393	355
Insured Unemployed	3,875	3,418

U.S. Labor Dept. Seasonally adjusted.

Has Okun's Law Been Repealed? Years ago, when I was in graduate school and still had a size 34 inch waist, economist Arthur Okun put the relationship between GDP growth and unemployment into a widely used rule of thumb. More recent versions say the unemployment rate should fall by about half a point for every percentage point that real GDP growth exceeds 2.5 percent, which is the growth of *potential* GDP.

However, over the past year, real GDP has grown only about 2 percent, which should have caused unemployment to *rise* a few tenths of a point. If this pattern continues to hold, we could get to full employment much faster than previously forecast. The Federal Reserve would have much less time to wind down or reverse the extraordinary monetary actions of recent years.

If you ask economists what constitutes full employment, most will mumble NAIRU. (Are you old enough to remember Nehru jackets? How about leisure suits?) It stands for the non-accelerating-inflation-rate of unemployment. It is where inflation would be stable, but not necessarily zero. The Fed believes NAIRU is around 5.5 percent as shown by its longer term economic forecasts. The Fed's estimate is particularly important because it influences the setting of interest rates.

I believe unemployment will fall less rapidly during the next few years – even with faster GDP growth. One major reason is that labor force growth is likely to accelerate temporarily as increased hiring and job openings attract more people to enter or re-enter the workforce.

Regional Patterns: There's a wide range of unemployment rates across the states. Nevada and California were at the epicenter of the housing bust. In both states, the percentage of homeowners who are "under water" (mortgage exceeds market value of home) is around 50 percent compared to 20 percent nationally.

Regional Unemployment

	Jan 2012
Highest	
Nevada	12.7
California	11.1
Region	
Connecticut	8.0
Massachusetts	6.9
New York	8.3
Rhode Island	10.9
Lowest	
Nebraska	4.0
North Dakota	3.2
United States	8.3

U.S. Labor Dept. Seasonally adjusted.

Nebraska has benefitted from strong agricultural prices and its growing role as a transportation hub. North Dakota has seen job growth in transportation and energy production. State and local budgets are in pretty good shape. In both states, the cost of doing business is well below the national average.

In our region, Massachusetts had one of the shallower recessions and has been able to climb back faster. The deeper declines elsewhere have exacerbated state and local budget problems and made recovery more difficult. Recent financial services cutbacks in the form of layoffs and reduced bonuses have been a drag in both Connecticut and New York. Rhode Island, which was one of the hardest hit states in the nation, is showing signs of emerging from the slump.

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